



U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
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AUDIT MEMORANDUM
00-CH-211-1807

January 13, 2000

MEMORANDUM FOR: Preston A. Pace, Jr., Director of Columbus Multifamily Hub,
Ohio State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: MJM Management Company
Multifamily Equity Skimming
Cleveland, Ohio

We completed an audit of the books and records of MJM Management Company. We performed the audit to determine whether MJM Management used project funds according to the Regulatory Agreement and other agreements, and applicable HUD policies and procedures. The review was part of our Operation Safe Home initiative.

We found that MJM Management Company paid \$164,842 of Silver Meadows' Project funds for ineligible loan related payments and asset management fees. MJM believed it could make the ineligible payments because the Project's Owner had invested more in the Project than HUD required. The Regulatory Agreement and HUD requirements restrict Project disbursements to payments necessary for operating and repairing the Project and restrict distributions to owners to the amount of surplus cash. The payments of \$164,842 were not necessary for the operation and repair of the Project, and the Project had negative surplus cash. The payment of the ineligible expenses reduced the amount of money available for the operation and repair of the Project.

During the audit, MJM Management Company and the Project's Owner advanced the Project over \$210,000 for the inappropriate loan payments and asset management fees. MJM and the Project's Owner established a liability on the Project's books for the advances. HUD executed a settlement agreement with MJM Management Company and the Project's Owner effective December 29, 1999. Under the terms of the settlement, MJM Management and the Project's Owner agreed to remove \$215,892 in payables from the Project's books, thereby canceling the Project's liability for payment of the amounts. The \$215,892 includes the

inappropriate loan payments, asset management fees, and our audit cost. Based on the settlement agreement with HUD, we consider this matter closed.

If you or your staff have any questions, please contact me at (312)353-7832.

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The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington DC 20510
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, United States House of Representatives, Washington DC 20515
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Ms. Cindy Foglemen, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington DC 20515
Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street N.W., Room 2474, Washington DC 20548 (Attention: Judy England-Joseph)
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503
President, MJM Management Company